Coverdell ~~TA~~ - former PC dir.

THE WHITE HOUSE

WASHINGTON

Kennedy, Dodd - pushing internally

June 15 floor; Still could be on

Strong R resistance

Mgrs Amdt mit may not go to floor

who gets credit

Jeffords, Coates :

Adm thing, all Clinton

Suzanne Day - Dodd may call me, reach out to R advoes - Other Pres, C Powell

Anti-slippery slope

Pol Faith

Tobacco victory FRP

Maureen McLaughlin

URGENT

Total Pages: 7

LRM ID: CJB216

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Thursday, May 7, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO:	Legislative Liaison Officer - See Distribution below
FROM:	Janet R. Forsgren (for) Assistant Director for Legislative Reference
OMB CONTACT:	Constance J. Bowers PHONE: (202)395-3803 FAX: (202)395-6148
SUBJECT:	**Draft Statement of Administration Policy on S1882 Higher Education Amendments of 1998**
DEADLINE:	**3:00 p.m. Friday, May 8, 1998**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: S. 1882 is on the Senate calendar. The Senate could begin consideration May 11, 1998.

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LRM ID: CJB216 **SUBJECT:** Draft Statement of Administration Policy on S1882 Higher Education Amendments of 1998

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Constance J. Bowers Phone: 395-3803 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ____________________ (Date)

____________________ (Name)

____________________ (Agency)

____________________ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _______

_____ Other: _______________

FAX RETURN of _____ pages, attached to this response sheet

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DRAFT -- NOT FOR RELEASE

May , 1998
(Senate)

S. 1882 -Higher Education Amendments of 1998
(Sen. Jeffords (R) VT and others)

The Administration is strongly committed to working with Congress to reauthorize the Higher Education Act (HEA) this year. The Administration has serious concerns with several provisions that are in the bill or are likely to be added, but is encouraged that S. 1882, as reported by the Senate Committee on Labor and Human Resources, reflects numerous Administration proposals.

Unfortunately, there are also several highly problematic provisions in the reported bill, including: a change to the student loan interest rate structure that provides excessive profits to lenders and requires unnecessary new spending; changes that would significantly increase payments to guaranty agencies; and changes that would provide insufficient funding for the Department of Education to manage effectively all of the student aid programs. Overall, if such provisions are in the bill as presented to the President, particularly in light of other concerns raised in this Statement of Administration Policy, the **[President's senior advisers] or [Secretary of Education]** would recommend that the President veto S. 1882.

Student Loan Interest Rates. The Administration cannot accept the bill's provisions that would provide lenders with excessive profits and require taxpayers to finance those profits through an additional $2.7 billion subsidy to lenders over five years. Most of the additional $2.7 billion of spending is not offset in the bill and therefore would trigger a possible sequester of several entitlement programs specified in the law.

A budget sequester would raise student loan origination fees -- which are already too high -- and reduce Federal mandatory spending across-the-board. Vital programs such as vocational rehabilitation, foster care and adoption assistance, and Medicare should not have to bear the cost of lender subsidies.

Statutorily set lender subsidies are not necessary to ensure access to Federal Family Education Loans (FFELs), especially for large banks that can make sufficient profits at lower interest rates because of economies of scale, and they ignore promising market-based mechanisms for addressing concerns expressed by the lender community. The Administration would support a policy that moves toward an auction-based approach to determining lender returns on FFEL loans that includes: (1) a study of promising auction-based approaches for determining lender

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returns by the Secretary of the Treasury and Secretary of the Treasury, in consultation with technical experts and program stakeholders; (2) implementation, after Congressional notification, of auction-based pilots that hold the greatest promise as models for full-scale FFEL implementation; and (3) program-wide implementation after an independent evaluation determines that a successful model can be put in place for all FFEL loans.

<u>Section 458 Funding Reductions</u>. The Administration strongly opposes provisions in S. 1882 that would reduce administrative funds available to the Department of Education under section 458 of the HEA by more than $220 million during fiscal years 1999 to 2003, while increasing administrative payments to guaranty agencies by roughly $350 million during that period. These provisions directly threaten the Department's ability to manage the over $50 billion annual Federal investment in student financial aid by taking away the funds necessary to carry out vital activities, such as student aid application processing, student loan default collection, and urgently needed modernization of student aid delivery systems (including the Department's efforts to address "Year 2000" problems in these systems, which would be seriously compromised by this funding reduction). We hope to work further with Congress to restore section 458 funding to the Department and reducing the payments to guaranty agencies to more appropriate levels.

In addition, there are other significant provisions in S. 1882 that the Administration will seek to improve during further congressional consideration. Among these issues are the following:

- The Administration is very disappointed that S. 1882 fails to include the Administration's High Hopes initiative, which would reach whole cohorts of disadvantaged students at even younger ages. High Hopes would build upon TRIO activities and provide over 1 million needy middle-school students with effective information, tutoring, mentoring, and academic preparation to prepare them for college and deepen their aspirations and commitment to pursue postsecondary education.

- S. 1882 fails to make adequate performance-based reforms to encourage and reward efficient service delivery by guaranty agencies, and would include new and excessive sources of revenue for guaranty agencies. The Administration hopes to work with the Congress to fashion an acceptable compromise that provides much-needed guaranty agency reform.

- The Administration is also very disappointed that S. 1882 does not lower origination fees for students. The Administration proposed to lower the fees by one percentage point for all borrowers and to phase them out entirely for borrowers of subsidized loans, and offered the necessary offsets to finance these fee reductions.

- The bill does not include changes necessary to implement the President's proposal to allow individuals with unsubsidized student loans to serve their communities

DRAFT

for up to three years without accruing interest on these loans. Under current law, individuals with subsidized loans do not accrue interest while receiving a deferment and performing community service, but those with unsubsidized loans continue to accrue interest. This proposal is part of the President's call to action to encourage all Americans to serve their communities.

- S. 1882 also fails to exclude from taxation any loan balances that are forgiven after the maximum number of years of income-contingent repayment. Income-based repayment ensures that borrowers who remain low-income relative to their debt do not have to carry that burden for more than 25 years. Saddling them with an additional tax liability is neither appropriate nor was it ever intended.

- The Administration supports *[still "under construction"--we want to support the Senate bill's treatment of the consolidation loan interest rate and oppose the weighted average approach used by the House--apparently there is a rumor going around that we support the weighted average, which is not true]*

- The Adminstration understands that amendments may be offered to eliminate the bill's excessive restrictions on participation in the proposed distance education demonstration program, and to provide other adminstrative flexibilities necessary for the success of the demonstration program. Such amendments would greatly improve these provisions of S. 1882.

- The Administration appreciates the bill's strong support for postsecondary education programs, but notes that certain proposed authorization levels are not realistic in the current budget environment.

The Administration looks forward to working with Congress to resolve these and other issues [,such as those articulated in a more detailed letter from the Secretary of Education,] as Congress works to reauthorize the Higher Education Act.

<u>Pay-As-You-Go Scoring</u>

H.R. 6 would increase direct spending; therefore, is subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. The bill does not contain provisions to

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offset this increase in outlays. Therefore, if the bill were enacted, its deficit effects could contribute to a sequester of mandatory programs. OMB's preliminary scoring of this bill is that it would increase outlays by $2,061 million during FYs 1998-2003:

ADJUST AFTER REVIEWING THE SENATE BILL

Fiscal Years
(In millions of dollars)

	1998	1999	2000	2001	2002	2003	1998-2003
Outlays	-$281	$308	$460	$479	$520	$575	$2,061

* * * * * * * * * *

Joanne Cianci 05/04/98 03:47:30 PM

Record Type: Record

To: Diana Fortuna/OPD/EOP

cc: Melinda D. Haskins/OMB/EOP
Subject: Tax Provision/Cost Estimates

Jim spoke to someone from the Committee about the tax provision. Apparently, the B-K tax provision may be moved to another bill.

SSA received CBO cost estimates of the Bunning-Kennelly bill. SSA did not have a faxable copy, but here is the bottom line (does not include the tax provision or the 2-for-1 demo):

<u>Costs (Savings) from FY 1998 - FY 2008</u>

Total ($394) million -- SSA said this might be ($384) million (bad copy)

<u>Select Components</u>
Ticket
-- DI ($97) million (includes $140 million for milestone payments)
-- SSI ($46) million (include $69 million for milestone payments)

Medicare $46 million

big savers: ($492) million in benefit savings
($180) million from the "gradual phase out of the current VR program" (it is not clear what they mean by this.

S.1483

Jon_Oberg @ ed.gov (Jon Oberg)
04/22/98 05:50:03 PM

Record Type: Record

To: Diana Fortuna/OPD/EOP

cc: Maureen_McLaughlin @ ed.gov (Maureen McLaughlin) , Pauline_Abernathy @ ed.gov (Pauline Abernathy)

Subject: Re[4]: community service amendment

We are working on three possibilities: Mikulski, Greenwood, and House HEA managers.

Deborah Connelly with Mikulski has all the information from us but wants to hear from community service advocates and get more information on why this is important to the Administration. Can you provide? Her fax is 228-4513. If she gets this information, she will recommend it favorably to Sen Mikulski, but at this point is unsure if the Senator will do it.

Kara Haas with Greenwood has all our information as well, but has not heard from anyone else. To my pointing out that Peace Corps thinks this is important, she says whe hasn't heard from them or anyone else.

In other words, these offices want to hear from someone besides me.

I have also raised the issue with the House minority staff to see if they can get in the managers' amendments in the House. It is on my list of about seven items. They are meeting tomorrow with majority staff to start working on managers' non-controversial amendments.

______________________ Reply Separator ______________________
Subject: Re: Re[2]: community service amendment
Author: Diana_Fortuna@opd.eop.gov at Internet
Date: 4/22/98 1:46 PM

Any progress on our community service amendment?

~~870-7823~~

- ~~Smullen~~
- ~~Nissenbaum~~
- ~~Anne~~
- ~~Cynthia/Andr.~~
- ~~Gimp?~~
- ~~Ruby?~~
- ~~Josh?~~

Mon

~~CS Fing~~
~~JK CBO est - call whom?~~
~~Is cost of Bunning just health + tax?~~
~~McEntee!~~

VP — Tampa in May MJJ (A) less not fan
Milw/WI, MN, FL (May 30), MI,
Co Sept? ~~Buffalo~~ Upstate NY, PA, IL, WA
(maybe NJ) Oh, NC (Lowp) (Ky 7/18)
W/ Powell prob
Don't exclude other gd ones

Tues ~~AA Rds Trg~~ - Shireman - We're trg
~~Bad~~ venue for summit mtg, in Phila.

Sefe Bob Martin - focus (?)
Chip Dombaugh - RPCV 462-5938
Strond: best VE contacts - sc ed he gps
Mikulski; Greenwd
Hv Harris call - will do